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RUEHCV/AMEMBASSY CARACAS PRIORITY 2643
RUEHLP/AMEMBASSY LA PAZ AUG 0685
RUEHPE/AMEMBASSY LIMA PRIORITY 1858
RUEHGL/AMCONSUL GUAYAQUIL PRIORITY 2697
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C O N F I D E N T I A L QUITO 001900

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TREASURY FOR MMALLOY AND MEWENS
DEPT FOR WHA/EPSC FAITH CORNEILLE

E.O. 12958: DECL: 08/21/2017

TAGS: [ENRG](#) [EINV](#) [ECON](#) [EC](#)

SUBJECT: LIMITED VENEZUELAN SUPPORT FOR TENTATIVE NEW
ECUADORIAN REFINERY

REF: A. QUITO 173

[1B.](#) QUITO 1497

Classified By: Jefferson Brown, Reasons 1.4 (b&d)

[11.](#) (C) Summary: Venezuelan and Ecuadorian state oil companies signed an MOU August 9 for a \$5 billion joint refinery project in Ecuador. A Petroecuador official explained that the two state companies would form a "mixed company" to execute the project. However, he expressed concern that obtaining financing (which was not discussed in the MOU) would cause delays, and Petroecuador may consider bringing in other parastatals. End Summary.

[12.](#) (U) Increasing Ecuador's petroleum refining capacity is a GOE energy priority, given the decrepit state of its current refinery and the need to import large quantities of refined products. Venezuelan and Ecuadorian state oil companies PDVSA and Petroecuador signed an MOU with this goal in January, during President Chavez's visit to Ecuador for Correa's inauguration (ref A). When Chavez again visited Ecuador August 9, PDVSA and Petroecuador signed another MOU for a joint refinery project to be built on the coast of Manabi province. The agreement sets up a technical commission to study the project. According to Petroecuador president Carlos Pareja, the refinery would cost \$5 billion, take 3-4 years to build, and have a refining capacity of 300 thousand barrels of crude per day.

[13.](#) (C) Econoff met with Petroecuador representative Julio Teran, in the office in charge of the project, to discuss plans for the refinery. Teran noted that the major sticking point for the project is financing - PDVSA has not discussed financing and it is unclear where the \$5 billion would come from. He does not believe PDVSA or the GOE has the money to finance the project. He estimates that the GOE could possibly finance 10 to 20 percent of the project (\$500,000 or \$1 million) using money from the FEISET petroleum reserve funds. He noted that the GOE has been talking to a Chinese petroleum company (Sinopec) about possible financing for the refinery project. Although the MOU is between PDVSA and Petroecuador, Teran commented that the GOE is leaning towards allowing other South American state oil companies to participate in the project, both for financing reasons and for their technical expertise. Possible partners could include Brazil's Petrobras, Chile's ENAP, and Colombia's Ecopetrol. When asked about Sinopec, Teran replied that

although the Chinese could be involved in financing, they would not be considered for involvement in construction.

¶4. (C) On August 14, the Minister of Petroleum and Mines reportedly approved a request for PDVSA and Petroecuador to form a "mixed company" which would be in charge of executing the refinery project. Teran thinks it will take the remainder of 2007 to form the mixed company. Following that, he believes movement on the project will depend on the ability to secure financing. If financing is forthcoming, he estimates construction on the project could start in 2008 or ¶2009.

Ties to ITT

¶5. (C) According to Teran, the refinery's capacity would be too large for Petroecuador to fulfill with current production. Petroecuador would need at least an additional 100,000 barrels per day to utilize the refinery's full capacity. Teran claims the refinery would only be worth the investment if the large Ishpingo Tambococha Tiputini (ITT) fields were to be exploited, providing additional crude. He considers that by moving forward with plans for the refinery, the GOE is implicitly approving development of the ITT fields (the project is currently under a one-year moratorium to see if the international community will compensate the GOE not to develop the fields, ref B). In fact, Teran noted that a government commission is already analyzing a joint ITT development proposal from Sinopec, Petrobras, and ENAP. He claims Petroecuador would like to conduct feasibility and environmental studies now, so that when the one-year moratorium period is up next summer, the GOE could move forward quickly with the ITT project.

¶6. (C) Comment: Private sector industry contacts portray the PDVSA-Petroecuador refinery agreement as purely political, since they do not expect the refinery to go forward due to its complexity and high cost. Energy agreements signed between Ecuador and Venezuela in January thus far have amounted to little (several crude-for-derivatives exchanges took place but the arrangement is being reviewed by the GOE out of concern that it is not cost effective). It is telling that the MOU skirts the all-important question of financing, and even members of Petroecuador's own refinery project team are skeptical that the project is viable given the challenge of obtaining financing. End Comment.

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